

U.S. Department of Commerce (DOC)
Non-Financial Internal Control Review of Personal Property
Audit Program

Introduction:

The United States Government put in place Office of Management and Budget (OMB) Circular A-123 as a means of improving internal control for the Federal Government. Section II of the OMB Circular A-123 discusses the Standards of Internal Control. These standards and associated objectives have been used as a framework in completing the audit outline presented below.

The Internal Control Review will identify controls currently in place based on an understanding of the Personal Property process that is in existence as well as identify deficiencies in design and operation of controls. We will focus on programmatic controls as opposed to financial controls for the purpose of this review. Based on the controls identified, a risk assessment will be performed in order to determine whether existing controls, as designed, can effectively mitigate risk. The mapping of existing controls to risks will involve discussions with key personnel regarding their implementation of current policies, with specific reference to personal property issues, as well as review of the documentation of the acquisition, receipt, and property management process. Where tests of controls have already been performed, we will rely on the results of such tests to document our analysis. Based on the responses and review of pertinent documentation, an evaluation will be developed which will address the efficiency of controls currently in place.

Additionally, we will follow the implementation guidelines established by OMB Circular A-123, Appendix A, for testing key controls. The guideline states that a complex control that is performed daily should be tested more often than a less complex control performed annually. After considering the complexity of a control, the following are examples of sample sizes based on the frequency of the performance of the control; annually – 1; quarterly – 2; monthly -3; weekly – 10; daily – 30; and recurring – 45. Ultimately, management should use its best judgment to determine how extensively a key control will be tested.

General Controls (Non-Financial):

1. We will inquire at the bureau level regarding the existence of and compliance with policies and procedures regarding the personal property process. We will inquire whether the bureaus maintain their bureau specific policies and procedures manual for their property management function. Additionally, we will perform inquiries of the inventory management process. For this purpose we will utilize applicable documents provided by the Department of Commerce (DOC) including the following:
 - Department of Commerce Personal Property Management Manual (DOC PPM)
 - Department of Commerce Property Official Certification Program Manual.

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2. We will determine whether policies and procedures are communicated to the respective bureaus and to the individuals responsible for performing the control activities, per above.
3. We will determine whether a chain of custody is established in compliance with DOC PPMM sec 4.805 which states, “PAOs shall maintain, for each PC, signed listing of documents that evidence assumption of custodial responsibility by PCs,” otherwise known as “Hand Receipts.” We will also determine whether detailed records are maintained and kept in secure areas in order to support actual transactions. Records maintained by personal property management system should include the following:
 - Property Custodian’s name, building, and room number
 - Status of property item (Loaned out or currently maintained in office). If item is loaned out, record should indicate individual who item is assigned to
 - Barcode, or other unique identification, number for individual items of personal property
 - Property description
 - Manufacturer of item
 - Serial number
 - Acquisition Date
 - Acquisition Cost.
4. We will determine whether access to property systems is password-restricted to authorized employees. Document any exceptions noted.
5. We will determine the method of recording transactions pertaining to personal property in the accounting system and review reconciliations of inventory counts to listings from system property records.
6. Observe each bureau’s organizational structure of employees responsible for accountable property to verify that segregation of duties is adequate. We will document the following:
 - A. In order to further verify if segregation of duties is adequate, ensure that property officials have been identified and appointed. We will inspect appointment letters for PMO, PAO and PCs. We will document the individual who is the Property Management Officer; the Property Custodial Officer; and the Excess Property Manager. In order for adequate segregation of duties to exist among each property position, the same employee should not be responsible for two of the duties noted above. Document any exceptions noted.
 - B. Verify that property officials have appropriate property-related elements included in their performance plans. Document any cases in which property-related elements have not been included in their performance plans. Document any exceptions noted.
 - C. Verify that property officials have completed training for certification, per section 1.4b of the DOC Property Official Certification Program. Document any cases in which property officials have not completed training for certification. Document any exceptions noted.

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7. We will, on a sample basis, (to be determined based on the sampling guidelines provided in OMB Circular A-123, Appendix A) verify that a Property Board Review panel was appointed to investigate incidents involving lost, stolen and/or missing property, and review the Property Board's actions and recommendations. We will also verify whether the Property Board's recommendations were implemented and inquire into the cause if they were not implemented.
8. We will review current management of Personal Digital Assistants, cell phones, and removable memory storage devices for efficiency. We will accomplish this by reviewing each bureau's policy addressing the management of these items.
9. Verify that all bureaus within DOC have migrated to the new Personal Property Management System. For those bureaus that have not, we will inquire into the timeframe for the migration, and determine if it is on schedule.

Process Controls:

Controls over the Acquisition of Personal Property

1. In order to ensure that each bureau has adequate controls over the management and tracking of personal property, select a judgmental sample (to be determined based on the sampling guidelines provided in OMB Circular A-123, Appendix A) of property items from the Personal Property Management System and test for the following (The sample size will be determined based on the population of inventory):
 - A. Verify that the property item has been tagged with a unique barcode for identification. This will be accomplished by physical inspection of the property. (Non-financial)
 - B. Observe how information is entered into the property system and review reconciliation of Property Record to financial records. (Financial)
 - C. Verify that property is assigned to the property custodian.

Controls over the Receipt and Invoice of Property

1. In a memo format, review and document the controls in place for the addition of assets to:
 - A. Determine if all goods are received at a central location. (Non-financial)
 - i. Verify that the receiving site location is physically secure and has restricted access. Document any exceptions noted.
 - ii. If goods are not received at a central location, verify that the agency has controls in place to ensure that goods are tagged and entered into the property system on a timely basis. Document any exceptions noted.

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- iii. Verify that upon receipt, the goods received are validated to the purchase order, and all ordering documents. Document any exceptions noted. (Purchasing Cycle Testwork)
 - iv. Determine that upon the receipt of personal property, items are recorded on a Personal Property Control Form CD-50 to provide a data entry document to the accounts and records and to substantiate the disbursement voucher. Document any exceptions noted. Since the recording of receipt of goods varies by bureau, we will perform this test for all bureaus that have a unique process for recording this transaction. (Non-financial)
- B. Determine that property received is tagged by the Accountable Property Office with a unique barcode number for identification, per DOC PPMM 4.806. Document any exceptions noted. (Non-financial)
 - C. Document names and titles of individuals performing the tagging, and recording of goods functions, in order to determine segregation of duties, noting any exceptions. (Non-financial)
 - D. Verify that once the item is logged into the system, the property item is delivered to the end user, who signs an acceptance of the item, indicating receipt of the property. Document names and titles of individuals who perform these functions, noting any exceptions. (Non-financial)

Controls Over Maintenance of the Property Database

- 1. Once property is entered into the database, the entry is reviewed and approved by the appropriate individuals and reconciled to the financial transactions and records. Determine that inventory dispositions or “excesses” are entered into the database as well. Document any exceptions noted. (Non-financial)
- 2. Obtain a listing of all accountable property transferred, loaned and excessed throughout the period under review. Verify dollar amount of population to accountable property transfers on roll forward schedule. Document any exceptions noted. (Financial)
- 3. In order to determine controls over inventory transfers (including removals and loans), select a judgmental sample (to be determined based on the sampling guidelines provided in OMB Circular A-123, Appendix A) of assets which have been transferred throughout the fiscal year from the population obtained in Step 2. Test the sample for the following:
 - A. Verify that property transferred, loaned, or excessed is processed using a Personal Property Control Form CD-50. Document any exceptions noted. (Non-financial)
 - B. Determine that Personal Property Control Form CD-50 is authorized by the appropriate individuals. (Non-financial)

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- C. If the transfer is due to broken, stolen, or lost items, ensure a Report of Review of Property Form CD-52 was processed. Document any exceptions noted. (Non-financial)
- 4. Discuss the occurrence of known lost/stolen property with bureau officials. Review results of property inventory and corresponding adjustments to ascertain the extent of lost/stolen property items. (Non-financial)

Controls Over Inventory Custodianship and Physical Inventory Validation and Reconciliation

- 1. In a memo format, review and document the controls in place to determine that all bureaus conduct an annual physical inventory sighting of all accountable property. Examples of such controls include tracing inventory from floor to inventory listing or vice-versa, ensuring that property that is “removed” from the inventory listing is not on the floor, written inventory instructions etc. Ensure that the annual physical review is completed by an individual outside of the Property Office and completed by the end of each fiscal year. Document exceptions noted. Verify that the accountable property reconciliation includes the following documentation: (Non-financial)
 - A. Results noted during the physical inventory sighting, including any discrepancies or other issues found.
 - B. Follow-up information documenting resolution of any discrepancies.
 - C. A clean final inventory report demonstrating no discrepancies due to proper follow-up.
 - D. Date of last annual physical review.
 - E. Inspect the Chain of Custody process, initiated by Property Accountability Officers and validated by Property Custodians, certifying that property is accounted for and in their custody.
 - F. For “unaccounted items,” verify that a Property Board panel was appointed to investigate the property designated as “lost, stolen, or missing.”
 - G. Inspect the Property Board Review’s actions taken and recommendations.
 - H. Verify that the Property Board’s recommendations were implemented and document exceptions, especially in cases where the PMO did not agree with the Property Board’s recommendations.
- 2. Per 4.801 of the DOC PPMM, determine that property accountability records are reconciled periodically with the financial control accounts in accordance with procedures established by servicing financial accounting activities. Adjustments required as a result of such reconciliation shall be documented as prescribed in 4.700 of the PPMM, and must be posted promptly to the records and accounts. Document any exceptions noted. (Financial) – Documented in “Controls over Maintenance of the Property Database” – inquire if testing has been performed.
- 3. Select a sample of property items located on the floor (issued and in use) of each bureau to test for existence in each category. Prior to selecting a sample, separate personal property into two groups: laptops and other accountable items, and select sample to test according to the following schedule: (Non-financial)

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- Less than 5,000 items in inventory: 15 laptops, if available.

Use the sample to ensure that:

- i. The property is accountable under the proper agency based on the funding source. Document any exceptions noted. If property is determined to be loaned, review supporting documentation for loaned property.
 - ii. The property is tagged with unique barcodes for identification. Document any exceptions noted.
 - iii. The property is logged into the property system with the correct information:
 - (a) Description, manufacturer information, model number and serial number agree to property system and the physical item. Document any exceptions noted.
 - (b) Item's location agrees to property system. Document exceptions noted.
- I. Document in a memo format the bureau's controls over lost or stolen property: (Non-financial)
 - J. Verify that the immediate supervisor and Property Control Officer were immediately informed of any property which has been missing, stolen, damaged, or destroyed. Obtain supporting documentation (memo, email, etc.) verifying that an immediate supervisor and Property Control Officer have been informed of the bureau's lost or stolen property items. Document any exceptions noted.
 - K. Obtain supporting documentation verifying that the Form CD-52 was completed and forwarded to the PAO and PMO. Document any exceptions noted.
 - L. Verify that lost or stolen items have been removed from active status in the property database, but not removed from the property system until they are deemed irrecoverable. Document any exceptions noted.
 - A. If theft is suspected, ensure that the DOC Security Guards were notified, if internal; if outside the DOC complex, ensure that local law enforcement authorities were alerted. Document any exceptions noted.
 - B. Document in a memo format the bureau's controls in place for the temporary removal (loaning) of property from the workplace. In a memo format, document the following and note any exceptions: (Non-financial)
 - C. Loaned items are signed out and back in on a timely basis, and are in accordance with DOC PPM 3.201, including the following:
 - i. A loan agreement is issued and current. Document any exceptions noted.
 - ii. The property is not excess to the department. Document any exceptions noted.

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- iii. The loan is for a specified period of time not to exceed one year. Document any exceptions noted.
- D. Determine that the PAO maintains a log of loaned property, including:
 - i. The barcode information of the loaned property. Document any exceptions noted.
 - ii. To whom the property was loaned. Document any exceptions noted.
 - iii. The date property was loaned. Document any exceptions noted.
 - iv. The date property was returned. Document any exceptions noted.
 - v. A description of the property that was removed. Document any exceptions noted.
- E. Verify that the accountable property system denotes that the material is on loan. Document any exceptions noted.
- F. Verify that loaned accountable property items were included in the last physical inventory counts by performing the following steps:
 - i. Verify that the last physical inventory included loaned property. Document any exceptions noted.
 - ii. Obtain a list of loaned property from the accountable property database. Document any exceptions noted.
 - iii. Verify that sample items of loaned property from the database were included in the physical count. Document any exceptions noted.
- G. Document in a memo format the bureau's controls in place for the disposal of personal property. Review the controls in place for the disposals of assets to ensure that:
 - i. Property is transferred/disposed only with proper authorization and Form CD-50 and that a copy of the authorization is provided to appropriate personnel. The Form CD-50 must accompany the movement of assets in transit for disposal, exchange and/or retirement. Document any exceptions noted.(Financial)
 - ii. Property (furniture/equipment) is removed from the system by an individual separate from the individual approving the disposal. Document any exceptions noted. (Non-financial)
- H. Per DOC PPMM 4.901 verify that each bureau has established a Property Board of Review (PBRs), and that reviews are conducted regarding circumstances surrounding loss, theft, damage, destruction, or other circumstances adversely affecting personal property.
- I. Document the last date in which a PBR was conducted, and the results thereof. Ensure that recommendations and adjustments are made to the database as appropriate. Document any exceptions noted.
- J. Verify that the last PBR Report of Review included the following:
 - i. Circumstance of reporting.

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- ii. Responsibility for reporting condition of property.
- iii. Determination of negligence, intent to defraud, or misconduct.
- iv. Action taken to recover property.
- v. Action by legal or law enforcement officer, if any.

Based on the processes in place and the testwork performed, develop a report that includes the results of the compliance testing at the Bureau and any gaps in the internal control structure that were noted.